



Montgomery's budget gap grows to nearly \$1 billion

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(Examiner file)

Millionaires fleeing state tax cause 82 percent of income drop

Montgomery County, Maryland's richest county, is facing a budget shortfall of nearly \$1 billion as high-income residents flee the state's millionaires tax.

Budget officials told the County Council on Tuesday that Montgomery must once again write down its projected income tax revenues, this time by \$44 million for this fiscal year and \$100 million for next fiscal year, which starts in July.

Those write-downs come up on top of a \$24 million income tax reduction disclosed last week for the current fiscal year, and are in addition to a nearly \$800 million budget gap projected for next fiscal year.

The budget holes have threatened the county's AAA bond rating and prompted County Executive Ike Leggett to propose raising energy taxes by 63.7 percent, eliminating 18 bus routes and closing a public library in Noyes.

A weak economy that ate away at capital gains and slowed the growth of small businesses can account for much of the county's fiscal woes, but county officials said the state compounded the problem by raising taxes for millionaires to 6.25 percent from 5.5 percent in 2008.

"Their timing couldn't have been worse," said Councilman Mike Knapp, D-Germantown, who said the millionaires tax has had a "devastating" effect on the county's budget. "Talk about cutting yourself off at the knees."

A "major factor" for the county's budget woes is the loss of its millionaire taxpayers, according to county economist David Platt.

Also in Montgomery

» The County Council gave preliminary approval to a revised "Science City" plan that supporters hope will make west Gaithersburg an epicenter of the life-sciences industry. Council members voted 8-1 on a straw vote, with Councilman Marc Elrich opposed, for a plan that scales back the county planning commission's proposal to 17.5 million square feet of development from 20 million. The plan also includes new safeguards against traffic congestion.

» A former County Council aide who sued the county for \$5 million for allegedly violating an anti-discrimination law she helped write has dropped her lawsuit. Dr. Dana Beyer had charged in court records that the county discriminated against her because she is a transgender individual.

Montgomery lost \$4.6 billion in taxable income from tax years 2007 to 2008. More than 82 percent of that drop comes from taxpayers with incomes of \$1 million or more, county records show.

County data show that 216 millionaires who filed taxes for 2007 did not file with the state for 2008, compared with an average of 119 in previous years. While some of those not filing may have died or decided not to file a tax return, county officials said there is plenty of anecdotal evidence that Maryland's millionaires moved to more tax-friendly states.

"It's pretty clear that people did take their income someplace else," said Tim Firestine, chief administrative officer, noting that the loss of just a handful of millionaires has a disproportionate effect on the county's revenues.

Worse yet, Knapp said, was the likelihood that many millionaires who left won't come back when the tax expires at the end of the year, leaving the county's tax base smaller.

"Even if the economy gets better, we're going to have less money," Knapp said.

The millionaires tax may become a campaign talking point. Former Republican Gov. Bob Ehrlich already has criticized Gov. Martin O'Malley, a Democrat, for his strong support of the tax.

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